



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

April 19, 2000

Dear Consultant:

Re: Initiation of Audit on the competitive services offerings
Docket No. EA00040232

The New Jersey Board of Public Utilities is seeking a consultant to perform audits on the competitive services offerings of New Jersey's 7 largest electric and gas distribution companies. You are invited to submit a proposal to perform the audits, in accordance with the Request for Proposal (RFP). Proposals must be received at the Board's office, at the above address by Noon Eastern Standard time on Monday May 22, 2000, to be eligible for consideration.

To facilitate the timely preparation and submission of proposals, an informal RFP review conference will be held at the Board's Newark Office on Monday May 8, 2000, at 10:30 a.m., to review the RFP with the Board's staff and representatives from the utilities.

You are requested to inform the Board by Monday, May 1, 2000, in writing, of your intent to submit a proposal.

All correspondence and proposals should be directed to my attention. Letters of intent may be faxed by dialing (973) 648-2848.

If you have any questions, feel free to call Jack Greenberg of my staff at (973) 648-2689.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Walter P. Szymanski".

Walter P. Szymanski, Director

REQUEST FOR PROPOSAL
TO PERFORM AUDITS OF THE COMPETITIVE SERVICES OFFERINGS OF
NEW JERSEY'S SEVEN ELECTRIC AND GAS UTILITIES

Pursuant to N.J.S.A. 48:3-55, 48:3-56, and 48:3-58

DOCKET NO. AA00040232

Conectiv Docket No. EA00040233
GPU Energy Docket No. EA00040234
Public Service Electric & Gas Company Docket No. EA00040235
Rockland Electric Company Docket No. EA00040236
Elizabethtown Gas Company Docket No. GA00040237
New Jersey Natural Gas Company Docket No. GA00040238
South Jersey Gas Company Docket No. GA00040239

April 19, 2000



New Jersey Board of Public Utilities
Two Gateway Center
Newark, New Jersey 07102

SECTION 1. GENERAL INFORMATION

1.1 Introduction. The New Jersey Board of Public Utilities ("Board") issues this Request for Proposal ("RFP") pursuant to N.J.S.A. 48:3-55, 48:3-56, and 48:3-58 to secure the services of one or more independent consultants ("Contractor") to conduct audits of the competitive business segments of all New Jersey's electric and gas utilities ("Utilities"): Conectiv; GPU Energy ("GPU"); Public Service Electric and Gas Company ("PSE&G"); Rockland Electric Company ("RE"); Elizabethtown Gas Company ("EG"); New Jersey Natural Gas Company ("NJNG"); and South Jersey Gas Company ("SJG")(See Attachment 2). The purpose of these audits is to ensure that the Utilities or their related competitive business segments do not enjoy an unfair competitive advantage over other non-affiliated purveyors of competitive services and to monitor the allocation of costs between competitive and non-competitive services offered by the Utilities. The audits should begin within 60 days of the issuance of this RFP. All costs related to this engagement will be borne by the Utilities, and it is expected that the engagement will take 90 days to complete.

1.2 Scope. The primary scope of these audits is to review the Utilities' competitive services offerings in relation to the Electric Discount and Energy Competition Act (the Act), the board's rules, regulations and orders related to competitive services. (Attachment 3: N.J. Electric Discount & Energy Competition Act; Attachment 4: NJ BPU Affiliate Relations, Fair Competition & Accounting Standards) The Contractor will offer its expert opinion, based on appropriate methodology, as to whether there is strict separation and allocation of each utility's revenues, costs, assets, risks, and functions, between the utility's electric and/or gas distribution operations and its related competitive business segments. The audits will also determine whether there is (1) cross subsidization between utility and non-utility subsidiaries within a public utility or holding company; (2) whether the separation of utility and non-utility organizations is reasonable based upon the Board's affiliate relation and fair competition standards; (3) the effect on ratepayers of the use of utility assets in the provision of non-safety related competitive services; (4) the effect on utility workers; and (5) the effect of utility practices on the market for such services.

The Consultant may also be asked to give his opinion on whether any other service offered by the utilities is a competitive service.

The Contractor, based on its stated methodology, will quantify the amount, if any, the Utilities have unfairly allocated. Each of the Utilities, and intervenors, shall have the right to contest the methodology and rebut the findings of the audit.

The audit areas of review will include, but will not necessarily be limited to, the following:

- Corporate Planning
- Executive Management
- Organizational Structure
- Communication and Control
- Cost Allocation Methodologies for
 - a. Centralized services
 - b. Transfers to, or uses of, utility assets, property, and plant (e.g., utility buildings, vehicles, tools, and equipment) by the competitive service programs
 - c. Personnel transfers
 - 1. permanent reassignment,
 - 2. temporary/part-time reassignment, and
 - 3. shared employees
- Subcontractor Utilization
- Inter-/Intra-company Billings
- Program-Related Revenues
- Program-Related Expenses (direct and indirect)
- Compensation (including salary, fringe benefits, incentives, etc.)
- Record-Keeping (including timesheets, cost allocation, reports, program statistics, etc.)
- Support Services (e.g., legal, insurance, real estate, data processing, etc.)

Electric generation service is deemed to be a competitive service and will be included in the scope of this audit.

The scope of these audits is also restricted to competitive services offerings and related utility operations within the State of New Jersey, with respect to those of the Utilities which, or the affiliates of which, may offer such services in other states.

1.3 Objective. The objective of these audits is to provide the Board with the information necessary to determine whether the competitive services identified as such are, in any way, cross-subsidized by the individual utility's regulated activities and to determine the reasonableness of the lump-sum charges (i.e., service contract rates) and the time-and-materials charges encountered in a competitive environment. The results of the audits will be used in conjunction with information gathered by Staff in determining whether the Utilities are in compliance with the intent of N.J.S.A. 48:3-55, 48:3-56, and 48:3-58 to restructure New Jersey's electric and gas industries so as to create open competition without undue consequences to the safety, adequacy, and propriety of traditional, basic utility service.

1.4 Schedule. It is the Board's intention to adhere to the schedule as proposed (Attachment 1).

1.5 Definitions and Responsibilities of Parties. The definitions and general responsibilities of the Board, Utility, and Contractor are as follows:

1.5.1 Board. The Board is the client for whom the audits are to be performed and is the sole point of contact for this RFP. The Board and/or its Staff ("Staff") will: (1) evaluate the submitted proposals; (2) choose the Contractor; (3) supervise the performance of the audits; (4) review the Contractor's expenses and authorize payment; and (5) utilize the results of the audits for the purposes set forth in the RFP.

1.5.2 Utility. The Utility is the subject of the audit and will be the signatory to the contract. The Utility will: (1) be responsible for all costs related to this audit; (2) cooperate with the Contractor and Staff; (3) provide timely and complete responses to all document and interview requests; and (4) provide adequate working space and necessary office equipment for the Contractor and Staff.

1.5.3 Contractor. The Contractor is the selected consulting firm(s), its personnel, and subcontractors. The Contractor will: (1) perform the audit(s) under the supervision of Staff; (2) ensure that any subcontractors comply to the RFP; (3) report, as required, to Staff; (4) submit expenses to Staff for the authorization of payment; (5) submit the results of the audit(s) to Staff; and (6) provide testimony, if required, regarding the results of the audit(s).

1.6 Confidentiality. Unless otherwise ordered by the Board, all aspects of the submitted proposals, and performance of the audit(s) shall be confidential.

1.7 Rejection of Proposals. The Board reserves the right to reject any or all submitted proposals not in conformity with this RFP, or for any other cause.

1.8 Proposal. Prospective contractors ("bidders") must submit a complete response to this RFP in accordance with the format provided in Section 2.1. It should be addressed to: Walter P. Szymanski, Director of Audits, Two Gateway Center, Newark, NJ 07102. Also, an RFP Review Conference will be held at the Board's Newark office in order to respond to any bidder questions on the RFP and further explain the purposes of this engagement. There must be one original proposal, signed by an official authorized to bind the bidder to its provisions, and 10 copies. The proposal must remain valid for the length of the audit(s). Once all accepted proposals are reviewed, Staff may require interviews with the remaining bidders to discuss the contents of the proposals. Both the RFP and the proposal will comprise contractual obligations for the selected Contractor(s), unless modified by mutual consent. The Board will determine the number of consultants/contractors who will perform this review after its scheduled Board meeting on May 10, 2000. It is vital that the consultants/contractors provide the Board's staff with comments associated with the consultant's ability to perform one or more audits. This information will be presented by Staff to the Board at its agenda meeting scheduled for May 10, 2000, at which the Board will determine the number of audits that will be awarded, i.e. one, two, three, seven, etc.

1.9 Incurred Costs. Neither the Board, Staff, nor the Utilities shall be liable for any costs incurred by the Contractor prior to Staff's authorization to execute a written agreement signed by the Utility and the Contractor.

1.10 Compensation. Payment of any contractual costs incurred subsequent to the signing and authorization of a written agreement will be made upon receipt of the Contractor's invoice, as set forth in Section 3.4. Payment of invoices will be 100% of the undisputed amount of expenses and 80% of the undisputed amount of professional and support staff fees. The remaining 20% will be paid when the final report is filed with the Board and all contractual obligations have been met. Disputed amounts shall be subject to arbitration by the Board.

SECTION 2. PROPOSAL CRITERIA

2.1 Format. Review and evaluation of the proposal will be based upon the following format:

2.1.1 Summary. A discussion reflecting the bidder's understanding of the proposed audit.

2.1.2 Work Plan. A discussion setting forth the bidder's work plan, as follows:

- A. approach, with emphasis upon the techniques for collecting and analyzing data;
- B. products to be delivered and time estimates for each task;
- C. sequence and relationship of all areas to the experience of the personnel in each category; and
- D. methods of managing the audit(s).

2.1.3 Experience. A resume of the bidder indicating previous experience, with full identification of all references and descriptions of assignments completed and their pertinence to this engagement.

2.1.4 Personnel. Resumes of all personnel to be involved in the audit(s), including previous experience, clients served, and respective dates. Experience should reflect previous work assignments for each person as it relates to the area of his/her assignments. Any substitution of personnel must be approved by the Board's Director of Audits after a review of the Contractor's written justification; including detailed resumes of the substitute personnel.

2.1.5 Relationship with the Utility Companies. A detailed statement indicating any prior, existing, or prospective relationship, financial or otherwise, between the Contractor, its personnel, and/or subcontractors, and the utilities being audited.

2.1.6 Costs. List separately the not-to-exceed bid for services, itemized as follows:

- A. professional and support staff fees of all personnel, consisting of the projected hours and rate per hour for each category;
- B. supplies and materials;
- C. all travel expenses, including transportation, meals, lodging, etc.; and
- D. any other direct costs.
- E. Costs incurred after completion of the audit, if necessary for the presentation of findings, e.g., cross examinations, hearings, and all other procedural matters, will be in addition to the cost of the audit(s), and are to be negotiated between Staff and the Contractor.
- F. Costs for the performance of work determined to be outside the initial scope of the RFP by the Board or Staff will be only incurred with the specific, written authorization of Staff. The hours worked shall be billed at the average professional rate per

hour, based upon all professional rate categories set forth in Section 2.1.6. If Staff determines additional hours to be necessary, said hours shall be considered to be a modification of the written agreement and shall be mutually agreed upon by Staff and the Contractor, unless otherwise ordered by the Board.

2.2 Other Information. Any other information which may assist in the review of a submitted proposal, such as brochures, literature, or samples of recent assignments completed, may be submitted with, but shall not be considered part of, the proposal. The Board may award a contract for any or all parts listed under the Scope. The Board may also award a contract for any or all the utilities subject to this audit.

SECTION 3. AUDIT PROCEDURE

3.1 Safety Standards. When on the Utility's premises, the Contractor must comply with all regulatory standards and Utility policies dealing with safety, insurance, and work specifications.

3.2 Project Control. The audit(s) will be performed in accordance with the written agreement. There will be no direct reporting by the Contractor to anyone but the Board or Staff. All written and oral communications will be through Staff. The Contractor may be requested to discuss audit progress with Staff, as necessary.

3.3 Monthly Progress Reports. The Contractor shall submit a written monthly report for any month in which work was performed. The report shall consist of a general narrative providing adequate information regarding the status of the audit(s), with an explanation of any discrepancies between the approved work plan and actual progress.

3.4 Invoices. All invoices shall be presented to Staff with the Monthly Progress Reports and supported by appropriate documentation and may be subjected to an audit by the Board and/or the Utility for a period of two years after the completion of the audit(s). The invoices should be itemized as in Section 2.1.6 and shown in relation to the contractual cost.

3.5 Development of Final Report. The results of each audit shall be filed with the Board in a separate final report for each utility. The development of the final reports will evolve in two stages:

3.5.1 Draft Report. A draft of each final report shall be submitted and shall include a summary of the audit process and a summary of all recommendations. Upon the resolution of any factual discrepancies, Staff will authorize the preparation of the final report.

3.5.2 Final Report. The Contractor shall provide a maximum of 100 bound copies of the final report to be filed with the Board and one master copy suitable for photocopying, or as Staff may deem appropriate. The Board may authorize the printing of a number of redacted reports to protect proprietary information, if necessary.

ESTIMATED SCHEDULE

1.	Send RFP to prospective contractors	04/19/00
2.	Receive letters of intent from bidders	05/01/00
3.	RFP review conference	05/08/00
4.	Receive proposals from bidders	05/22/00
5.	Board selects Contractor	06/21/00
6.	Signing of contract	06/30/00
7.	Audit begins	07/03/00
8.	Contractor submits draft report	09/08/00
9.	Staff reviews draft report	09/15/00
10.	Utility reviews draft report for factual accuracy and proprietary information	09/22/00
11.	Contractor files final report	10/01/00

*** The RFP will contain one separate schedule for each of the seven utilities. Dates may vary for each utility based on individual circumstances.**